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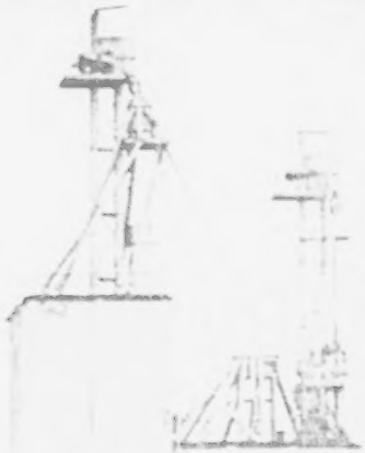
UP shops: Capital investment pays off

August 30, 1982

RAILWAY AGE



Kansas City Southern

**Independently well off—
and planning to stay that way**

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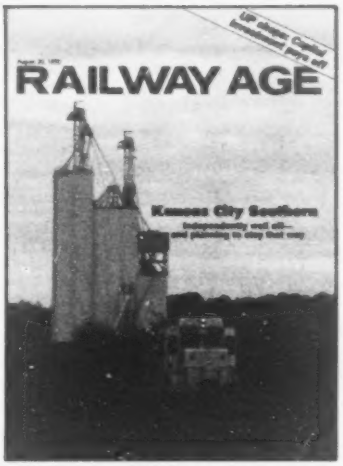
RAILWAY AGE

August 30, 1982

FEATURES



Cover: Grain-handling terminal on KCS near Noel, Mo. *Page 14.*

14 KCS: Marketing to stay independent
Going it alone when you're surrounded by giants isn't easy—but KCS hopes to stay single and prosperous through marketing ingenuity and an extended reach.

19 For UP shops, capital investment pays off
During the '70s Union Pacific invested $95.8 million in Mechanical Department equipment and facilities. The outlay has already paid for itself twice over.

24 A new approach to fleet management
Through its subsidiary SEEK (Superior Equipment Employment by Computer), North American Car is offering "total concept" fleet management to all comers.

26 A big push for perishables-by-piggyback
The Plan 3 fleet of reefer trailers (which has grown from 1,000 to 5,800 in two years) will account for 75,000-80,000 trailerloads of perishables in '82.

29 The ethics of buying (and selling) transportation
In a *Railway Age* survey, major shippers comment on practices (including "shopping around") that many believe are unwise and ultimately self-defeating.

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First-half net tops half-billion

Class I railroads have reported ordinary (net) income of $556.3 million for first-half 1982. This compares with a net of $962.1 million for the comparable 1981 period.

Only the Eastern District roads reported higher earnings this year—$192.2 million compared with $85.2 million in 1981. This was due in part to the fact that the 1981 period included a prolonged coal strike. The improved picture in the East also reflects the dramatic turnaround that has taken place at Conrail, which reported net income of $30.6 million in this year's first six months compared with a loss of $52.1 million in first-half '81.

The industry's rate of return on net investment for the 12 months ended June 30 was 3.07%, down from 4.59% a year earlier.

The financial report issued Aug. 16 by the Association of American Railroads shows that tight cost controls have helped the industry to weather the recession in relatively good condition. In the second quarter, for example, the reduction in operating expenses ($353.8 million) almost equalled the decrease in operating revenues ($359.7 million).

Net income for the 1982 second quarter was actually slightly higher than for the corresponding 1981 period—$340.2 million compared with $336.4 million. Eastern roads again led the way, rising from $18.4 million to $132.2 million.

CLASS I RAILROADS IN THE UNITED STATES
For the second quarter

	1982 (millions)	1981 (millions)
Operating Revenues	$ 7,222.1	$ 7,581.8
Operating Expenses	6,820.6	7,174.4
Net Revenue from Operations		
United States	401.5	407.4
Eastern District	161.2	6.7
Southern District	51.3	123.5
Western District	189.0	277.2
Ordinary Income		
United States	340.2	336.4
Eastern District	132.2	18.4
Southern District	65.6	96.1
Western District	142.4	222.0
For the first six months		
Operating Revenues	$14,412.3	15,241.4
Operating Expenses	13,641.9	14,128.3
Net Revenue From Operations		
United States	770.4	1,113.1
Eastern District	271.1	129.3
Southern District	145.2	304.5
Western District	354.2	679.3
Rate of Return on Net Investment[1]	3.07%	4.59%
Orindary Income		
United States	556.3	962.1
Eastern District	192.2	85.2
Southern District	131.4	246.2
Western District	232.7	630.7

[1] - Rate of return for 12 months ended June 30 (preliminary)

Kershaw delivers No. 2,000

It was a family affair when Kershaw Manufacturing C. delivered its 2,000th ballast regulator to the Family Lines at Montgomery, Ala., on July 26. In the photo are Royce Kershaw, Jr., chairman of Kershaw; A.C. Jones, vice president, engineering and maintenance, Family Lines; R.D. Spence, executive vice president, operations, Family Lines; and Knox Kershaw, II, president of Kershaw Manufacturing. It was in 1945 that Royce Kershaw, Sr., transformed an Army surplus truck into the world's first ballast regulator.

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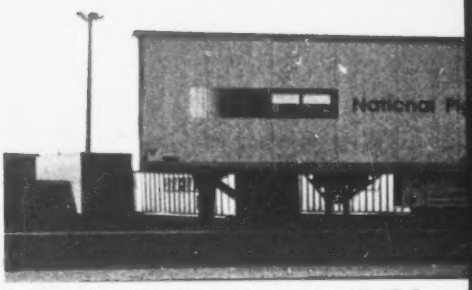
or Jack Burke, V.P.-Marketing

Agricultural Express of America trailer is lifted onto one of Pullman Standard's four-platform prototype intermodal cars, recently delivered to Trailer Train for tests.



National Piggyback Services, owned by BRAE Corp.,

Plan 3 operators push perishables traffic

The return of perishables traffic to the rails is being spurred by agricultural forwarders who are providing refrigerated-trailer, single-through-bill-of-lading, door-to-door service.

By RON HEIMBURGER
President, Intermodal Concepts, Inc.

New names, initials, reporting marks keep cropping up on piggyback trailers—mainly on refrigerated trailers used in the long-haul movement of crops, fresh fruits and vegetables.

Perishables-by-piggyback is a true growth industry, getting railroads back into a market that once was theirs and then slipped into the hands of unregulated motor carriers. The keys to growth have been customer supply of equipment, railroad ramp-to-ramp service, and balanced loaded movements with perishables moving in one direction and dry freight moving in the other.

Perishable Plan 3 operators are, for the most part, unregulated agricultural forwarders, providing refrigerated-trailer, door-to-door, single-through-bill-of-lading service to perishables shippers and receivers, including grocery chains. The commodities include lettuce, avocados, cauliflower, limes, cherries; you name it, it's probably moving somewhere under a Plan 3 arrangement. Primary origins today are Arizona, California, Oregon, Washington and Florida. Primary destinations are cities between the Mississippi River and the East Coast.

And, even though the names and initials on the trailers may not be familiar—as familiar as the names of such forwarders as Clipper Exxpress, Universal/Pioneer or Merchant/Stor Dor—many of the Plan 3 operators have close ties to major forwarders, shipper agents, shipper associations and motor carriers.

- **How they sell.** Plan 3 operators sell their services in two ways.

In one, the operator will sign a contract with the shipper or receiver. The operator agrees to make available a certain number of trailers per week or per month, and the shipper/receiver agrees to use at least that number of units. The per-trailer origin-destination rate may be fixed on an annual basis, it may vary with the shipping season or it may even vary on a monthly basis. Contract lengths run from one to several years, with one- and two-year contracts currently popular.

Under the second arrangement, the participants play the spot market. The Plan 3 operator will quote a daily trailer rate, origin-destination, based upon his knowledge of daily shipping needs, available competitive equipment (rail and over-the-highway), and competitive rates. The operator is trying to get the highest rate that the market will bear. The shipper/receiver, meanwhile, shops around for the lowest price—and hopes that all available trailers are not committed before he makes up his mind. Because of such factors as weather conditions, holidays, rates in other growing areas, and the ability to get a profitable (or at least quick) return load, rates can take sharp swings over a week or even over a few days, and seasonal price swings are significant. For example, summer rates for lettuce last year from California to New York ran to $4,200 or more per trailer, while winter rates fell to about $2,000 per trailer in the same traffic lane. Playing the spot market, all things considered, is a high-risk business but one with high potential return for both operator and user.

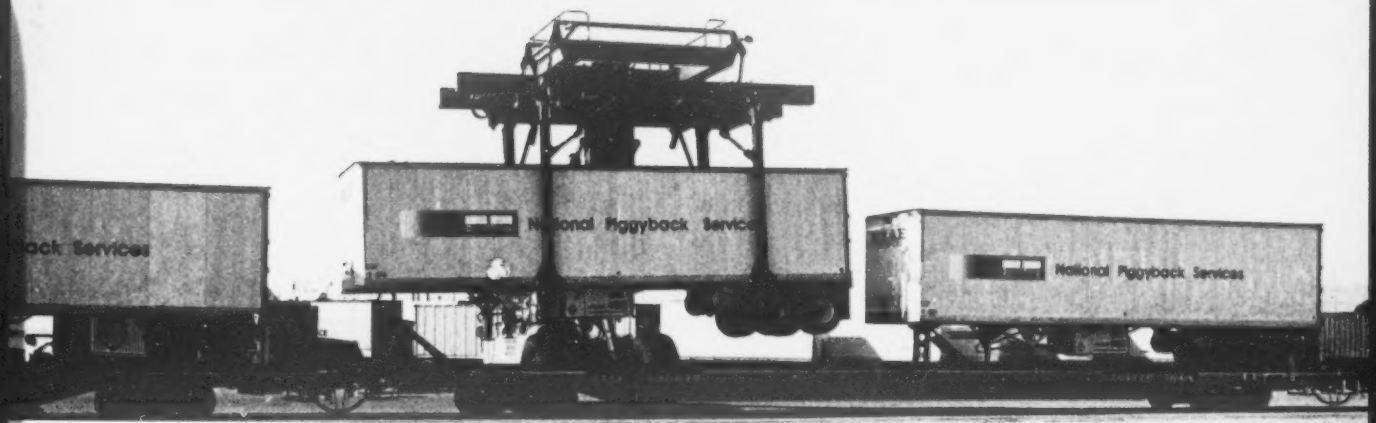
- **What they deliver.** For the per-trailer rate charged, the Plan 3 operator will maintain the trailer equipment, pre-trip the trailer, dispatch the unit to the shipper, pay drayage to the TOFC terminal and from the terminal to the receiver at the other end, and arrange and pay for any rubber-tire railroad interchanges that may be required. The operator will also track the trailer from loading to unloading and provide customer notification as needed or requested.

And, of course, the operator arranges for and pays for the railroad line-haul.

Currently, most of the traffic moves on annual volume contracts at favorable rail rates. And most of the railroads require that the operator balance each low-rail-rate perishables move with a higher-rate dry-freight trailer move in the reverse direction. This improves trailer balance, and it reduces the need to reposition empty trailers over long distances. At the same time, under these contracts, railroads will reposition the reefer trailer from its dry-freight destination to a ramp close to the perishables-shipping area.

Because of the trailer-balance requirement in the contracts, the ability to control dry-freight movements—primarily westbound—

Ron Heimburger, before founding his own company about a year ago, was director-business development, North American Car; and before that, a manager with A.T. Kearney.



ne of a number of new companies getting into perishables.

is critical to trailer utilization and to the profitability of the Plan 3 operator.

• **Who they are.** Several operators contract with freight forwarders, shippers agents or shippers associations to reload and return the equipment. Others move the trailers themselves or in cooperation with related shipper associations. Some control the dry-freight balance with their own forwarder, agent or association or even motor carrier operations. These arrangements have created interesting structures and affiliations. For example:

—AXXA, Agricultural Express of America, is under common ownership with a major freight forwarder, Clipper Exxpress.

—Agrishare is an agricultural cooperative.

—CO-OP, Co-operative Shippers, Inc., is a major shipper cooperative and was probably the first major Plan 3 operator, working in conjunction with Santa Fe. ,.

—Cornucopia Transportation, Inc., is a privately-held company.

—Fresh Approach Transport Co. is also privately-held and is managed by Riley Whittle, Inc., a transportation broker.

—Gelco Rail Services is owned by Gelco Corp., which leases trailers, containers, trucks and automobiles.

—Intermodal Express is privately-held and also operates in the shippers-agent and motor-carrier areas.

—Intermodal Systems is owned by Leaseway Transportation, which operates Midwest Distribution, a new ltl operation, and several contract motor carriers, as well as leasing trailers.

—Lomax Consolidators is privately-held and also operates as a boxcar shippers agent.

—Martrac is owned by United Parcel Service.

—National Piggyback Services is owned by BRAE Corp., which operates a major shippers agent and also leases railcar equipment and trailers.

—PSAZ, Pacific Northwest Shippers Association, is a major shippers association for eastbound commodities.

—Rail Services, Inc., is privately-held.

—TRANFAX is a privately-held company which packages limited-partnership agreements for trailers.

—Transamerica Distribution Services is owned by Transamerica, Inc., which is a major insurance company and also a trailer lessor through REALCO.

—U.S. Intermodal Distribution, Inc., is owned by Transcon, Inc., which operates a major motor carrier.

The Plan 3 fleet of reefer trailers has grown from 1,000 units in 1980 to approximately 5,800 trailers at the beginning of the 1982 summer shipping season. This year, the fleet should account for between 75,000 and 80,000 trailerloads of perishables, plus an equal number of moves of dry-freight. ■

Who has the trailers— and who's using them?

The fleet of refrigerated trailers used in Plan 3 perishables movements continues to grow. Here are latest available numbers on who has how many.

Company	Trailers
Agricultural Express of America	198
Agrishare	100
Co-operative Shippers Association	387
Cornucopia Transportation, Inc.	825
Fresh Approach Transport Co.	100
Gelco Rail Services	900
Intermodal Express, Inc.	280
Intermodal Systems, Inc.	300
Lomax Consolidators	70
Martrac	700
National Piggyback Services	603
Pacific Northwest Shippers Association	351
Rail Services, Inc.	229
TRANSFAX	100
Transamerica Distribution Services	400
U.S. Intermodal Distribution	200

As for the shippers and receivers using Plan 3 operations, these are among the majors:

Acme Markets, Inc., Philadelphia; Bud Antle, Inc., Salinas, Calif.; Balcom & Moe, Inc., Pasco, Wash.; The Castellini Co., Cincinnati; Chet Reddy Foods Corp., Othello, Wash.; Certified Grocers, Chicago; Thomas Colace Co., Philadelphia; Consumers Produce Co., Inc., of Pittsburgh; Peter Condakes Co., Inc., Boston; Corgan & Son, Inc., New York; Dominicks Finer Foods, Inc., Northlake, Ill.; Fisher Foods, Inc., Cleveland; Forlizzi Bros., Inc., Boston; J.R. Frerl Co., Inc., Boston; Giffenbain Brothers Co., Boston; The Grand Union Co., Elmwood Park, N.J.; Jewel Companies, Inc., Chicago; The Kroger Co., Cincinnati; Lamantia Bros. Arrigo Co., Inc., Chicago; F. G. Lister & Co., Ltd., Toronto; The Ontario Produce Co., Toronto; Ore-Ida Food, Inc., Boise; Pacific Pearl Seafoods, Seattle; Paolo Volpe & Sons, Inc., Cleveland; Paramount Produce, Inc., Boston; Puro Brothers, Inc., Phiadelphia; M. Singer Sons Corp., New York; Snokist Growers, Yakima, Wash.; Stop & Shop Companies, Inc., Boston; S. Strock & Co., Inc., Boston; Sunkist Growers, Inc., Sherman Oaks, Calif.; Supermarkets General Corp., Woodbridge, N.J.; Tenneco West Inc., Bakersfield, Calif.; and Wakefern Food Corp., Elizabeth, N.J.

Market

CARLOADINGS

Loadings of revenue freight in the week ended Aug. 7 totaled 352,604 cars, according to the Association of American Railroads. This was a decrease of 76,294 cars, or 17.8%, compared with the corresponding week last year. Ton-miles generated by carloadings in the week ended Aug. 7 are estimated at 14.9 billion, a decrease of 13.8% below the corresponding week of 1981.

REVENUE FREIGHT CARLOADINGS

Commodity	Aug. 7 week	July 31 week	July 24 week
Grain	26,227	27,178	27,543
Other farm products	3,109	2,987	3,776
Metallic ores	14,592	12,659	13,320
Coal	110,713	112,358	105,984
Crushed stone, gravel & sand	9,502	9,205	9,611
Nonmetallic minerals	8,894	11,053	10,569
Grain mill products	11,683	11,441	11,139
Food & kindred products	12,506	12,935	12,785
Primary forest products	15,078	15,225	14,802
Lumber & wood products (except furniture)	5,692	6,589	6,047
Pulp, paper & allied products	15,213	16,235	15,411
Chemicals & allied products	20,299	20,410	19,682
Petroleum products	4,848	4,809	4,697
Stone, clay & glass products	10,392	10,123	10,108
Coke	4,270	4,624	4,198
Metals & products	7,780	8,297	7,893
Motor vehicles & equipment	11,417	13,944	14,168
Waste & scrap materials	6,856	6,985	7,038
Forwarder & shipper assn. traffic	8,286	8,326	7,750
All other carloads	45,050	46,538	45,260
LCL traffic	197	222	210
Total Cars Loaded	**352,604**	**362,143**	**351,991**
Cumulative total, 32 weeks	**11,718,002**	1982 **13,279,258**	1981
Estimated revenue ton-miles (billions), 32 weeks	**502.9**		**560.8**

PIGGYBACK LOADINGS

U.S. piggyback loadings for the week ended July 31 totaled 38,104 cars (11.9% below the corresponding 1981 week) and 66,526 trailers or containers (up 8.1% from 1981). Cumulative volume for the first 31 weeks of 1982 is 1,106,416 (up 8.8% from 1981) and 1,952,815 trailers or containers (up 6.5% from 1981).

CANADIAN CARLOADINGS

Canadian railway revenue freight loaded in the seven-day period ended July 21 totaled 3.96 million tonnes (down 3.1% from 1981). Cars loaded totaled 60,971 (down 3.4% from 1981). Cumulative loadings for 1982 were 119.95 million tonnes (down 7.4% from 1981).

• *Chicago Regional Transportation Authority*.—Ordered 24 3,200-hp F40PH diesel-electric units from General Motors' Electro-Motive Division at a cost of $30.6 million. The locomotives, to be delivered in the next six months, will be used in Chicago & North Western commuter operations. Funding came $24.5 million from the federal government and $6.1 million from the state of Illinois.

• *Genesee & Wyoming*.—Will receive $472,581 from the New York State DOT for emergency rehabilitation of its track south of Rochester. The project is the first to be funded by New York's new three-year, $15-million branch-line assistance program.

• *Louisville & Nashville*.—Will lengthen passing sidings at Fagin, Tenn., and Akka, Ala., at a total cost of $3.4 million. At Fagin, between Knoxville and Etowah, Tenn., the existing siding will be extended 11,600 feet to create a fully signaled second track of 17,000 feet. At Akka, just north of Mobile, Ala., L&N will add 11,000 feet to the existing siding to create a second track 14,000 feet long. At both points, high speed turnouts and powered switches will be installed.

• *New York City Transit Authority*.—Union Switch & Signal Division of American Standard is the apparent low bidder on a major NYCTA signaling and communications modernization project. US&S bid $17.1 million for a contract calling for supply of switch machines, signals, stop layouts, impedance bonds, a control console and various control indication panels on a total of 3½ miles of track in Queens.

—NYCTA has placed a $15.5-million order with General Electric for 25 diesel-electric work-train locomotives. Completion of the order in mid-1984 will bring NYCTA's locomotive fleet to 62 units.

—A $1.2-million order has been awarded to Garrett Railroad Car & Equipment, Inc., of New Castle, Pa., for 24 specially equipped flatcars that will be used to deliver equipment and supplies to contractors engaged in NYCTA's multibillion-dollar renovation program.

• *Niagara Frontier Transit Authority*.—Awarded a $4.8 million contract to the High Voltage Systems Division of the L.E. Myers Co., Toledo, for supply and installation of an overhead 700 volt catenary system, with parallel feeder cables, along NFTA's two-track, 6.4-mile light rail route.

• *Soo Line*.—Will acquire two 2,000-hp GP38-2 diesel-electric units and one 3,000-hp SD40-2 unit from Electro-Motive at a cost of about $2.3 million. Delivery is expected in first-half of 1983.